

Note of Dissent to the Select Committee on the report on Insurance Laws Amendment Bill, 2008

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We have strong opposition to the recommendations in the report of the select committee regarding the two important issues of hike in FDI cap and the disinvestment of public sector general insurance industry.

The second and third paragraph of the report is totally misleading as like as the statements of objects and reasons. The statements and objects of the bill and these paragraphs of the report has created an misleading impression that the issue of hike in cap of FDI and disinvestment in public sector general insurance companies as proposed was decided upon the basis of these reports. **The fact is that the Law commission and KPN committee refrained from making recommendation for raising the foreign equity cap. While the statements and objects of any legislation cannot be modified with any type of amendments the ministry should be more vigilant in drafting this. Hence the third and fourth paragraph should be changed.**

The Standing Committee came to the unanimous conclusion that FDI increase is not needed and the companies can look to other options of raising capital if required (41st Report submitted on 13.12.2011). We are disappointed that this important and unanimous recommendation of the Standing committee is rejected and it is now proposed to increase the foreign equity limit to 49% both through FDI and FII routes. ***Ministry of finance has failed to give satisfactory reasons for not accepting the unanimous report of the standing committee. They have only submitted the same views which had been rejected by the standing committee on finance unanimously.***

According to the submission of the Ministry, IRDA and some private players have submitted some reasons for increasing the FDI cap. The main point is that the Insurance penetration is low in India and more FDI will help to improve the situation. But as per the reply submitted by the Ministry of finance we could not find any link between increasing FDI and increasing penetration. As per the submission the FDI in insurance sector is 3314.88 while the

penetration is 4.60 in 2007. But in 2012 FDI has been increased to 7648.72 while the penetration has been decreased to 4.0 and in 2013 FDI has been again increased to 7632 but penetration is the lowest as 3.90. These data clearly indicates that there is no logic in FDI and penetration.

Insurance penetration depends on several factors. As per the report of different agencies, the life insurance penetration in India is more than all the countries in Latin America, Eastern Europe and many industrialized nations. **The life insurance penetration in India in 2013 compared favorably with the United States at 3.2%, Canada 2.9%, Germany 3.1%, Spain 2.5%, China 1.6%, Australia 3% and New Zealand 0.9%. There cannot be any doubt that all these countries enjoy a huge advantage over India in terms of levels of income and disposable incomes. And the World average is 3.5%.**

The All India Insurance Employees Association submitted before the committee that “The General insurance industry has also done well. The penetration increased from 0.68% to 0.8% and the density increased from Rs.168 to Rs.571. The general insurance industry has grown faster than the economy and other sectors in the services. It is also a fact that there is uneven economic development in the country. This is evident from the fact that penetration is higher in places like Delhi and industrially advanced States while it is lower in Uttar Pradesh and other economically backward areas.’ While raising this point as a question to the ministry and IRDA, they failed to give satisfactory explanation for this.

While the select committee is silent on this issue, the report has stated thus

“. The Life insurance sector recorded compounded annual growth rate of 18.42% in the last 14 years whereas General Insurance Industry witnessed compounded annual growth rate of 16.62% during that period. Besides, the health insurance sector has also shown a substantial compounded annual growth rate of 33.11% during the period 2003 to 2014. The Committee understands that these growth rates may not be as per the expectations but are substantial enough to buttress the

increase in insurance coverage to the ever-increasing population. “ But this fails to give a clear picture of the contribution of LIC in life Insurance sector and Public sector general insurance companies in their sector.

The real fact is LIC continues to dominate the market both in terms of premium income and number of policies. It has a market share of over 75% in premium income and 84% in number of policies during this period. The total premium income of LIC stood at Rs.236798 crore registering a growth of nearly 14 percent. It settled 99.68% of the maturity claims and 99.3% of the death claims. This claim settlement record remains unmatched in the world.

The public sector general insurance companies too performed very well. The four companies earned gross direct premium income of Rs.43292 crore during the year 2013-14. The public sector companies dominated the market with a share of 56 percent. The investments of PSGI companies stood at Rs.101707 crore. These companies together paid the government a dividend of Rs.598.66 crore for the year 2013-14 on a capital of Rs.600 crore. By these facts, it is crystal clear that the Para 16.2.3 is baseless. Hence this paragraph should be deleted from the report.

Para 16.2.2 of the report states that “The Committee notes the broad assessment in next five years in the Insurance Sector both life and non-life at an estimated amount of Rs.55,000 crores, The IRDA and ministry have reached this assessment without any scientific study. And this had been rejected by the standing committee. So it should be re drafted like” ***As per the submission of the stake holders like IRDA these estimates are arithmetic and only a general estimate. So the committee should not have accepted these vague estimates.”***

Insurance is not a capital intensive sector. The 26% FDI limit is not an entry barrier and the companies see huge potential in the Indian demography. This is the reason that around 50 joint venture companies are operating in the country both in life and non-life segments. The total capital employed by 23 private life insurance companies is Rs.25418.75

Cr out of which the foreign component is Rs.6046.91 Cr as on 31st March 2013 (IRDA Annual Report 2012-13). These 23 private companies have a Pan-India reach. They have 6759 offices as against 3526 of LIC.

Similarly, the total capital employed by private General Insurance Companies is just Rs.5974.72 Cr, of which the FDI component is Rs.1295.28 Cr. (IRDA Annual Report 2012-13). These private companies have 1827 offices across the country. This makes it clear that 26% FDI limit is neither an entry barrier nor a constraint on expansion. It is being argued that insurance sector would need around USD 10 billion in the next few years if it has to grow and survive. This projection is totally unrealistic in the background of the fact that the foreign capital employed in the 14 years of operation is just 1.2 billion USD. It is already witnessed that with 26% FDI no efforts were made by the private players to penetrate to the rural market. Then there is no guarantee with the proposed hike in FDI that the private players will discharge their obligation.

A per the submission by the Life Insurance Council of India the insurable population is estimated at 60 crore and the number insured through individual assurances is estimated at 30 crore out of the 127 crore. Apart from this nearly 12 crore lives have been covered by LIC alone through the group insurance schemes. This makes it clear that more than 70 percent of the insurable population has been covered. This is very significant in a country where 77 % of the population is living with a daily consumption of below Rs 20. **We could not find any logical relationship with the capital employed and premium earned in Insurance sector. While the total capital and reserve of LIC is only Rs 100cr, the total premium earned as per March 2013 was Rs208000cr. But for Bajaj alliance the corresponding figure were 4844 cr and Rs 6893 cr and for Bharati AXA Rs 199cr and Rs 745cr. These clearly indicate that higher capital does not mean higher mobilization of premium income.**

The pleading that the Indian insurance companies are short of resources and hence wealthy foreign partners are required for them is totally baseless. **Most of the private insurance companies in India are subsidiaries of big flagship corporate houses like Tata, Birla, Reliance, Bajaj etc having sound financial base who are also**

venturing for big-ticket take-over of industrial units in foreign countries. The argument as companies cannot raise resources from the domestic markets due to the long gestation period is baseless. The Annual Report of IRDA states that in 2012-13 life insurance companies reported a net profit of Rs.6948 Cr up from Rs.5974 Cr in 2011-12. Sixteen out of 23 private companies have reported profits. Five of them have paid dividends of Rs.1155.95 Cr to the shareholders in 2012-13. In the general insurance the profits earned by the private companies for 2012-13 amounted to Rs.679 Cr. It is expected that the profits of these companies would have further increased in the last fiscal. Therefore, the arguments that they cannot raise resources from the domestic markets through IPO or through other avenues are totally unconvincing. **The Parliamentary Standing Committee on Finance was also of the same view and had suggested that in case of need, these companies can look to domestic markets for capital requirement.**

The performance of the private companies has raised serious concerns in the country. As per the submission by **MR Mathur former LIC Chairman, repudiation of private companies are very high in terms of no of claims and amount of claims. In 2013-14, the repudiated no of claims in LIC is only 1.10% while 8.05% in Private Companies. Some of the Private insurers have much higher levels of repudiation as around 20% by number and 28% by amount.**

The argument that the Foreign capital would bring new technology is also un realistic. **The chairman LIC had submitted before the committee that they have the best technology available in the world.** And some stake holders had raised the criticism that 85% of the life insurance business transacted by private companies with foreign partner is in the form of unit-linked policies(ULIP). Under these policies, the risk of investment is undertaken by policy holders and the solvency and capital requirement for this type of business is low. A large portion of the premium fund generated by private insurance companies is being invested in stock markets and not in infrastructure and social sector. While the total investments of LIC in Government securities and social sector stand at Rs.1069769 crore as at the end of March 2014. Its contribution to the 11th Five Year Plan amounted to Rs.704151 crore

and in the first two years of the 12th Plan, it has already contributed Rs.452460 crore. No other financial institution comes anywhere close to LIC in terms of contribution to the national development. So we strongly demand that the sentence in Para 16.2.3 from ***“However, the Select Committee does not find any merit in these arguments” to the last should be deleted.***

Para 16.2.4 should be redrafted as “we could not find any valid reason to change the unanimous decision against the hike in FDI cap in Insurance sector of the standing committee on finance. The committee is of the opinion that the recent experience at the time of subprime crisis and global meltdown has made the opposition to the hike in FDI cap more relevant. Increased role of foreign capital may lead to the possibility of exposing their economy to the vulnerabilities of the global market by way of likely inheritance of unsound balance sheet of the foreign partners through joint ventures and subsidiary route flight of the capital outside the country and also endangering the interest of the policy holders. So the further hike in FDI may not be in the interest of the Indian insurance sector and economy and against the interest of the policy holders.”

Permitting foreign re insurers and insurance syndicates like Lloyds of London will amount to permitting 100% FDI. We strongly oppose this move.

GIC had raised serious concerns regarding this. So we strongly express our discontent to the formulations of para 16.2.6 of the report. The proposed amendment to clause 107 of the bill actually intends to the de nationalization of the Public sector General Insurance companies in the country. The four nationalized general insurance companies are adequately capitalized. The combined share capital of these companies is Rs.600 crore as on date. These four companies have Reserve and Surplus of Rs.20524 Cr. They have a combined investment of Rs.101707 Cr. These four companies paid Rs. 598.66 Cr as dividend to the government for the year 2013-14. This financial strength suggests that they are capable of raising resources internally in case of need and this is exactly what they have been doing now. The GIC Re too with a capital of Rs.430 Cr and Reserves of Rs. 11452.08 Cr is adequately capitalized. The investments of GIC Re stand at Rs. 43247.46 Cr as at 31.3.2013. The GIC Re paid a dividend of Rs.449 Cr to the government for the

year 2013-14. Therefore, there is no need to take the disinvestment route to raise resources for the business needs.

Considering all these aspects, it becomes clear that the proposed enabling provision by amending the GIBNA is made only to invest the shares of the profitable and important companies in the public sector. This is neither in the interests of the public sector insurance industry nor the Indian economy. Rather than this measure, the government should look to consolidate the public sector general insurance industry on the lines suggested by the Parliamentary Committee on Public Undertakings. We strongly see no reason for this amendment and therefore record our dissent to the proposed amendment

So we demand to add a new Para as ' the committee feels that sub section 1(1) of sec 6A which allows the insurance companies to raise various types of capital from the market like debentures, bonds etc. The nationalized general insurance companies would also be allowed to raise such tier 11 capital if required. So the clause 107 of the bill will only open a space for de nationalization. So the committee is of the opinion that the clause 107 of the bill should be deleted.'

In the light of this we reject the majority recommendations of this select committee and submitting this note of dissent insisting the amendments we have suggested above be incorporated in the report. We reiterate the unanimous recommendation of the standing committee on finance in respect of hiking FDI cap be endorsed by the select committee. This would mean that this select committee rejects the present draft of the proposed legislation.